TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1491 - HB 2110

February 15, 2016

SUMMARY OF BILL: Increases the Hall Income Tax (HIT) maximum allowable income exemptions for all taxpayers, for income subject to the HIT, by $150 for single filers and $200 for joint filers, over the next five years beginning with tax year 2017.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – $1,031,100/FY17-18
$2,029,000/FY18-19
$3,010,200/FY19-20
$3,958,200/FY20-21
$4,889,500/FY21-22 and Subsequent Years

Decrease Local Revenue – Net Impact – $563,400/FY17-18
$1,108,500/FY18-19
$1,644,600/FY19-20
$2,162,600/FY20-21
$2,671,400/FY21-22 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given the tax changes shall be applied to tax years beginning with tax year 2017, and assuming that 100 percent of HIT owed for tax year 2017 is collected no later than June 30, 2018, the first year impacted by this bill will be FY17-18. This collection pattern is assumed to remain constant into perpetuity.
- The current Fiscal Review Committee estimate for HIT collections in FY16-17 is $270,000,000. This number is assumed to remain constant in subsequent years under current law.

- The current maximum allowable income exemptions levels for all taxpayers are $1,250 for each individual return or $2,500 of combined income for persons who file jointly, of income otherwise subject to the HIT.
- This bill will increase the levels to: $1,400 for single filers and $2,700 for joint filers, for tax years beginning January 1, 2017; $1,550 for single filers and $2,900 for joint filers, for tax years beginning January 1, 2018; $1,700 for single filers and $3,100 for joint filers, for tax years beginning January 1, 2019; $1,850 for single filers and $3,300 for joint filers, for tax years beginning January 1, 2020; $2,000 for single filers and $3,500 for joint filers, for tax years beginning January 1, 2021 and subsequent years.
- Based on analysis of HIT returns in the Department of Revenue's data warehouse, it is estimated that the proposed changes to the initial exemption levels will result in a decrease in HIT revenue of: 0.62 percent in FY17-18, 1.22 percent in FY18-19, 1.81 percent in FY19-20, 2.38 percent in FY20-21, and 2.94 percent in FY21-22 and subsequent years. The Fiscal Review Committee staff does not have access to the data and information upon which these calculations are based and cannot independently verify their accuracy.
- The total decrease in HIT revenue is estimated to be: $1,674,000 in FY17-18 ($270,000,000 x 0.62%), $3,294,000 in FY18-19 ($270,000,000 x 1.22%), $4,887,000 in FY19-20 ($270,000,000 x 1.81%), $6,426,000 in FY20-21 ($270,000,000 x 2.38%), and $7,938,000 in FY21-22 and subsequent years ($270,000,000 x 2.94%).
- Based on apportionments of HIT collections for the last three fiscal years (FY12-13, FY13-14, and FY14-15), it is estimated that the state retains 64.97 percent of HIT revenue and local governments are apportioned 35.03 percent.
- The decrease in HIT revenue for the state is estimated to be: $1,087,598 in FY17-18 ($1,674,000 x 64.97%), $2,140,112 in FY18-19 ($3,294,000 x 64.97%), $3,175,084 in FY19-20 ($4,887,000 x 64.97%), $4,174,972 in FY20-21 ($6,426,000 x 64.97%), and $5,157,319 in FY21-22 and subsequent years ($7,938,000 x 64.97%).
- The decrease in HIT revenue for the local government is estimated to be: $586,402 in FY17-18 ($1,674,000 x 35.03%), $1,153,888 in FY18-19 ($3,294,000 x 35.03%), $1,711,916 in FY19-20 ($4,887,000 x 35.03%), $2,251,028 in FY20-21 ($6,426,000 x 35.03%), and $2,780,681 in FY21-22 and subsequent years ($7,938,000 x 35.03%).
- Fifty percent of tax savings will be spent in the economy on sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net increase in sales tax revenue for the state is estimated to be:
    - $56,741 in FY17-18 [($1,674,000 x 50.0% x 7.0%) – ($1,674,000 x 50.0% x 7.0% x 3.617%)];
    - $111,120 in FY18-19 [($3,294,000 x 50.0% x 7.0%) – ($3,294,000 x 50.0% x 7.0% x 3.617%)];
    - $164,858 in FY19-20 [($4,887,000 x 50.0% x 7.0%) – ($4,887,000 x 50.0% x 7.0% x 3.617%)];
    - $216,775 in FY20-21 [($6,426,000 x 50.0% x 7.0%) – ($6,426,000 x 50.0% x 7.0% x 3.617%)]; and

- $267,781 in FY21-22 and subsequent years [($7,938,000 x 50.0% x 7.0%) – ($7,938,000 x 50.0% x 7.0% x 3.617%)].
- The total increase in sales tax revenue for the local government is estimated to be:
  - $23,044 in FY17-18 [($1,674,000 x 50.0% x 2.5%) + ($1,674,000 x 50.0% x 7.0% x 3.617%)];
  - $45,345 in FY18-19 [($3,294,000 x 50.0% x 2.5%) + ($3,294,000 x 50.0% x 7.0% x 3.617%)];
  - $67,275 in FY19-20 [($4,887,000 x 50.0% x 2.5%) + ($4,887,000 x 50.0% x 7.0% x 3.617%)];
  - $88,460 in FY20-21 [($6,426,000 x 50.0% x 2.5%) + ($6,426,000 x 50.0% x 7.0% x 3.617%)]; and
  - $109,274 in FY21-22 and subsequent years [($7,938,000 x 50.0% x 2.5%) + ($7,938,000 x 50.0% x 7.0% x 3.617%)].
- The net decrease in state revenue as a result of this bill is estimated to be:
  - $1,031,127 in FY17-18 ($1,087,598 - $56,741);
  - $2,028,992 in FY18-19 ($2,140,112 - $111,120);
  - $3,010,226 in FY19-20 ($3,175,084 - $164,858);
  - $3,958,197 in FY20-21 ($4,174,972 - $216,775); and
  - $4,889,538 in FY21-22 and subsequent years ($5,157,319 - $267,781).
- The net decrease in local government revenue as a result of this bill is estimated to be:
  - $563,358 in FY17-18 ($586,402 - $23,044);
  - $1,108,543 in FY18-19 ($1,153,888 - $45,345);
  - $1,644,641 in FY19-20 ($1,711,916 - $67,275);
  - $2,162,568 in FY20-21 ($2,251,028 - $88,460); and
  - $2,671,407 in FY21-22 and subsequent years ($2,780,681 - $109,274).
- There could be subsequent increase in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if the state's population increases as a result of reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of population changes. Due to multiple unknown factors, such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

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